

Things to Know Before Borrowing Money Online

DISB Responds to Rise in Online Lending Complaints

D.C. residents have contacted the D.C. Department of Insurance, Securities and Banking, known as DISB, with questions about companies that offer loans online. You may have noticed more advertisements on TV and on the Internet for loans ranging from small to large amounts, processed electronically through the internet instead of in-person at a financial institution.

Before D.C. residents take out this or any other type of loan, there are several things you should know. First, some of these loans have interest rates that exceed D.C.'s legal limit of up to 24% annually. With a few exceptions, D.C. law limits the amount of interest these companies can charge, and requires that such companies be licensed by DISB. In some cases, you may have heard others refer to these loans as "payday loans." Regardless of the name, loans taken out online and/or tied to paydays can end up costing you far more than the original amount borrowed.

Keep in Mind

- Before taking out a loan always check with DISB to determine if the company you are considering borrowing from is a licensed money lender and therefore is subject to the D.C. law that protects you from an interest rate higher than 24%. Just call DISB on 202-727-8000 and you will be directed to someone who can verify whether the company is a licensed money lender.
- If you choose to take out a loan from a company that is not licensed and/or does not have a physical presence in D.C., our laws likely will not provide you much protection. Online companies will set the terms of the loan in accordance with the laws of the jurisdiction where they are located. Some companies even designate an Indian tribe's or a foreign country's court as the jurisdiction. This means that you would have to travel outside of D.C. to that tribe's or country's court and know their procedures or pay an attorney who knows their law in order to defend yourself if the company takes legal action.

- In some cases, internet lending can increase security and fraud risks, such as identity theft, because consumers apply online or through faxed forms providing their name, address, social security number, employment and bank information.
- Some of these loans are structured to automatically renew every payday, with finance charges also being electronically withdrawn from the borrower's bank account. This can increase the loan amount beyond your ability to repay.
- DISB understands that some online lenders are using intimidating collection tactics, such as threatening borrowers with criminal penalties for failing to honor checks, or suing borrowers for damages under civil "bad check" laws. D.C. law can protect you from these practices; but only if you borrowed from a DISB-licensed lender.

Recommendations

D.C. residents should:

- Call DISB **before** signing any loan agreement to make sure the company is a licensed money lender. In D.C., you should avoid loans from unlicensed companies because, in the majority of cases, DISB's ability to protect your rights is limited. You can reach DISB at 202-727-8000 or online at disb.dc.gov.
- Carefully review the terms of the loan agreement. Some of these companies charge interest rates that exceed the D.C. legal limit of 24% and attach multiple fees.
- Consider alternatives to online loans such as credit union or small bank loans, credit counselling assistance, borrowing from a family member or friend, negotiating with creditors for more time to pay a bill, or requesting a cash advance from a credit card or a salary advance from your employer.

Also, remember that you can always contact your bank or financial institution for instructions on how to stop a company from processing recurring charges from your bank account. Remember, though, that if you owe money, the company can always sue you in the jurisdiction designated in the loan agreement. If you do not show up to court, the lender can obtain a default judgment, which they can then report to the credit reporting bureaus.

We Want to Hear From You

The bottom line is that D.C. residents can ensure that our law protects them only by borrowing from DISB-licensed money lenders. Any resident who believes they have been the victim of an unlicensed money lender may file a complaint with us electronically by visiting disb.dc.gov, or obtain a complaint form by calling 202-727-8000. We will do our best to resolve the matter.

About DISB

The D.C. Department of Insurance, Securities and Banking, also known as DISB, has two missions: to fairly and efficiently regulate financial services in order to protect the people of the District of Columbia; and to attract and retain financial-services businesses to the District. Visit us online at disb.dc.gov.

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